PORTLAND INVESTMENT COUNSEL®

# PORTLAND 15 OF 15 FUND
# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

SEPTEMBER 30, 2019

PORTFOLIO MANAGEMENT TEAM

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# Management Discussion of Fund Performance
# **Portland 15 of 15 Fund**

This management report of fund performance contains financial highlights, but does not contain either interim or annual financial statements of the investment fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-888-710-4242, by writing to us at info@portlandic.com or 1375 Kerns Road, Suite 100, Burlington, ON L7P 4V7 or visiting our website at www.portlandic.com or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

The views of Portland Investment Counsel Inc. (the Manager) contained in this report are as of September 30, 2019 and this report is not intended to provide legal, accounting, tax or specific investment advice. Views, portfolio holdings and allocations may have changed subsequent to this date. For current information please contact us using the above methods. All references to performance relate to Series F units. The performance of other units may be different than that of the Series F units due to differing fees.

## INVESTMENT OBJECTIVE AND STRATEGIES

The investment objective of the Portland 15 of 15 Fund (the Fund) is to provide positive long-term total returns by investing in a focused portfolio of global quality equities, with an emphasis on U.S. and Canadian listed companies. In selecting its investments, the Fund employs a comprehensive set of 15 criteria which are used to drive the manager's investment behavior (the five laws of wealth creation) and the manager's security selection process (the ten traits of successful private and private-like businesses). To detail, the Manager believes that wealth is being created by owning a few businesses, which are well understood, reside in long-term growth industries, use other people's money prudently and which are held for the long-term. Quality businesses are led by an owner/operator, have concentrated and easily identifiable ownership, exhibit autocratic and entrepreneurial management and board which are focused on growth, allow low turnover in its managerial ranks, have risks and rewards which are symmetrically distributed and focus on long-term goals and business fundamentals.

## RISK

As at April 18, 2019, the risk rating of the Fund was changed from a medium level of risk to a low to medium level of risk. Investors should be able to accept a low to medium level of risk and plan to hold for the medium to long term.

## RESULTS OF OPERATIONS

For the year ended September 30, 2019, the Fund's benchmark, the S&P 500 Total Return Index, had a return of 6.7%. For the same period, the Fund's Series F had a return of (1.9%). Unlike the Index, the Fund's return is after the deduction of its fees and expenses.

As at September 30, 2019, the top 5 sector exposure was constituted by financials 15.5%, healthcare 15.3%, communication services 13.2%, consumer discretionary 8.5% and energy 5.8%. By using a concentrated investment strategy, the Manager leverages its best investment ideas, which is expected to aid the Fund in meeting its investment objectives. As of September 30, 2019, the Fund's underlying portfolio held 16 investments.

The Fund's key relative performance contributors over the period were Danaher Corporation, Fortis, Inc. and Brookfield Infrastructure Partners L.P., while its key relative performance detractors were Whitecap Resources, Inc., The Kraft Heinz Company and Canopy Growth Corporation.

As expected, given the Fund's value focused mandate, the performance was mainly driven by company specific developments, the most important of which are detailed below.

Danaher Corp. was the largest relative contributor to fund performance during the period, as it continued to report results that exceeded the expectations in a consistent manner. Danaher announced the acquisition of General Electric Co.'s (GE) biopharmaceutical business for $21.4 billion, transaction which is expected to close later this year. Larry Culp, the current GE CEO, said the sale to Danaher, where he was CEO for more than a decade and instrumental in revitalizing the company, was a pivotal milestone in efforts to turn around the 126-year old conglomerate. The biopharma business accounted for 15% of GE's healthcare business revenue in 2018. It makes instruments and software that support the research and development of drugs. The GE unit is a great fit with Danaher as it is a leading, recognizable brand with a high mix of consumables/recurring revenue growth exceeding Danaher's, and the deal will be accretive to margins. Also during the period, Danaher spun out its dental division (of which it continues to hold about 80%), in a successful IPO, with the division trading up nearly 25% in its first day of trading.

Fortis, a leader in the North American regulated electric and gas utility industry, benefited during the period by the more cautious stance of central bankers in regards to the pace of interest rate raises. With the retreat in government bond yields, equities, in general, and relatively predictable dividend paying equities, such as utilities, in particular, saw increased investment demand. Fortis benefits from its vast geographic and regulatory diversity, low carbon footprint and the move to a cleaner energy future. The increase in annual earnings was driven by growth at both the regulated and non-regulated businesses, as well as lower income tax expense.

Whitecap Resources delivered another year of double-digit production per debt-adjusted share growth of 16% to achieve record annual production for 2018, on a slightly reduced capital program, and enhanced shareholder return by increasing its dividend and buying back shares. Nonetheless, the performance of the company's stock was severely affected through the end of 2018 by a loss of investor confidence as it relates to the Canadian energy sector. The energy markets saw a drastic turn for the worse during the last quarter of 2018, as crude oil prices were impacted by concerns around fallout from potential trade wars and the U.S. administration's push for higher OPEC (The Organization of the Petroleum Exporting Countries) production. In addition, crude oil producers all over Western Canada were affected by the extraordinary widening of the price differentials during the last quarter of 2018. The remainder of the period saw the markets focus more on the fundamentals, however, concerns around global economic growth under the threat of full-blown trade war kept the crude oil prices depressed. Towards the end of the period, Whitecap Resources benefited from the sudden appreciation of the crude oil prices caused by attacks on Saudi Arabia's oilfield facilities. It had however enjoyed robust performance prior to the attacks as well, as it announced a cut in its capital spending plan for the remainder of the year, citing global economic uncertainty.

Canopy Growth was also a large detractor to fund performance, even though it has a modest allocation within the Fund, as the largest global cannabis company was beset with challenges over the period. Its iconic founder was terminated at the start of the third quarter, a string of cases of vaping-related respiratory illnesses weighed on industry related sentiment and the rollout of retail stores in Canada took longer than previously anticipated. The lead shareholder, Constellation Brands Inc., is increasingly involved in managing the company and, as we write this commentary, its CFO has been named Canopy Growth's chairman. We're watching company and industry related developments closely.

During the period, the Fund initiated a position in Telix Pharmaceuticals Limited, a clinical-stage biopharmaceutical company focused on the development of diagnostic and therapeutic products based on targeted radiopharmaceuticals or "molecularly-targeted radiation" (MTR). The Fund also sold its entire stake in Kraft Heinz as we lost confidence in the management ability to execute on the strategy. The stock's depressed valuation prevented the company from using it for continuing its acquisitions and cost-cutting measures, which had been proven successful in the past. Slow adjustments to answer the changes in consumer tastes meant debt reduction fell short of target and further prevented the company from pursuing its acquisitive strategy. Blunders in financial reporting added to the company woes making it a significantly less compelling story, despite the involvement of the 3G Group and Berkshire Hathaway, the latter albeit passive. During the period, we also exited our investments in Brookfield Infrastructure Partners, on valuation concerns, and Brookfield Property Partners L.P. and reduced our exposure to some of the best performing holdings as we increased the allocation to cash for a more defensive positioning of the Fund.

## RECENT DEVELOPMENTS

The U.S. economy is expected to lead the pack of developed countries' economies for the foreseeable future, as a newfound willingness by central bank authorities across the globe to continue supportive monetary policies seems to be taking hold. The spike in volatility in the last quarter of 2018 was a wakeup call for regulatory entities across the globe that the path to normalization is going to be anything but smooth. The risk of policy missteps continues to take precedence. The policy path is, declaredly, data dependent, with the chief driver being inflation, though the pace of economic growth and level of employment are also key measurements. The pace of economic growth may succumb to the global slowdown trend, in particular if the breakdown in trade patterns deepens spurred by tariff wars.

Canada has been following in the footsteps of its much larger Southern neighbor and major trading partner insofar as its monetary policy is concerned. The Bank of Canada has indicated, during its more recent rate announcement, that the bar for a rate move, in either direction, is high and, therefore, the base rate scenario is hold for the foreseeable future. This is hardly surprising given the degree of interconnectivity between the two economies.

In an environment of slower but continued economic growth, which led to and combined with a more peaceful stance by the U.S. Fed, investors appear to have fallen into a pattern of complacency. With ever-lower fixed income yields, equities continue to appear relatively attractive, despite the strong run-up during the first quarter of 2019. The economic growth is deemed sufficient to support relatively attractive earnings growth, but not strong enough to demand restrictive monetary policy action. We believe that investing in the equity markets is likely to become a significantly more discerning affair, an environment far more benefiting active management and value-focused investors. The Manager believes that founder-led companies and companies with a high degree of ownership engagement have the ability to stand out by adapting quicker to market forces and improving their profitability through both operational changes and balance sheet optimization. Such companies are also likely to avoid the mistake of endangering long-term goals for short-term success.

We believe that the Fund is well positioned to continue to meet its investment objectives as outlined above.

## RELATED PARTY TRANSACTIONS

The Manager is responsible for the day-to-day operation of and for providing investment management services to the Fund. The Manager receives a fee for providing these services. This is calculated daily based on the net asset value of the Fund and paid monthly. During the period ended September 30, 2019, the Manager received $24,504 in management fees from the Fund, net of applicable taxes (September 30, 2018: $20,909).

Any administrative services paid for or provided by the Manager are charged to the Fund and are grouped and presented by expense type in the statements of comprehensive income. Depending on their nature, some expenditures are allocated to the Fund based on a variety of methods including net asset value or actual costs incurred. During the period ended September 30, 2019, the Manager was reimbursed $7,297 for operating expenses incurred on behalf of the Fund, including amounts paid to affiliates, net of applicable taxes (September 30, 2018: $6,199). The Manager absorbed $83,011 of operating expenses during the period ended September 30, 2019, net of applicable taxes (September 30, 2018: $76,100).

Affiliates of the Manager provide administrative services associated with the day-to-day operations of the Fund. These affiliates of the Manager were reimbursed $355 during the period ended September 30, 2019 by the Fund for such services (September 30, 2018: $762).

The Manager and/or its affiliates and key management personnel of the Manager and their family (collectively referred to as Related Parties) may invest in units of the Fund from time to time in the normal course of business. Transactions to purchase or redeem units are made at net asset value per unit. Standing instructions from the independent review committee were not required or obtained for such transactions. As at September 30, 2019, Related Parties owned 59,022 shares of the Fund (September 30, 2018: 15,000).

The Board of Directors of the Manager is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities.

*Notes*

*Certain statements included in this Management Discussion of Fund Performance constitute forward-looking statements, including those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent they relate to the Fund. These forward-looking statements are not historical facts, but reflect the current expectations of the portfolio management team regarding future results or events of the Fund. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The portfolio management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation.*

*Certain research and information about specific holdings in the Fund, including any opinion, is based upon various sources believed to be reliable, but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice.*

# Summary of Investment Portfolio as at September 30, 2019

## Top 25 Investments*

| | % of Net Asset Value |
|---|---|
| Cash | 25.8% |
| Telix Pharmaceuticals Limited | 8.3% |
| Berkshire Hathaway Inc. | 7.0% |
| Whitecap Resources, Inc. | 5.8% |
| Liberty Latin America Ltd. | 5.4% |
| Brookfield Asset Management Inc. | 5.1% |
| Linamar Corporation | 5.0% |
| Danaher Corporation | 4.8% |
| Fortive Corporation | 4.3% |
| Walgreens Boots Alliance, Inc. | 4.1% |
| Alphabet Inc. | 4.1% |
| Facebook, Inc. | 3.7% |
| Oracle Corporation | 3.6% |
| Carnival Corporation | 3.5% |
| BlackRock, Inc. | 3.5% |
| Fortis, Inc. | 3.5% |
| Canopy Growth Corporation | 2.3% |
| Grand Total | 99.8% |
| Total net asset value | $1,626,654 |

* *Where the Fund holds less than 25 holdings, all investments have been disclosed. There may be other assets and liabilities which are not included, and therefore the summary may not add up to 100%.*

*The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end by visiting www.portlandic.com or contacting us at 1-888-710-4242.*

## Portfolio Composition

| Sector | |
|---|---|
| Other Net Assets (Liabilities) | 26.2% |
| Financials | 15.5% |
| Health Care | 15.3% |
| Communication Services | 13.2% |
| Consumer Discretionary | 8.5% |
| Energy | 5.8% |
| Industrials | 4.3% |
| Consumer Staples | 4.1% |
| Information Technology | 3.6% |
| Utilities | 3.5% |

| Geographic Region | |
|---|---|
| United States | 35.0% |
| Other Net Assets (Liabilities) | 26.2% |
| Canada | 21.6% |
| Australia | 8.3% |
| Bermuda | 5.4% |
| Panama | 3.5% |

*Other Net Assets (Liabilities) refers to cash on hand plus all other assets and liabilities in the Fund excluding portfolio investments.*

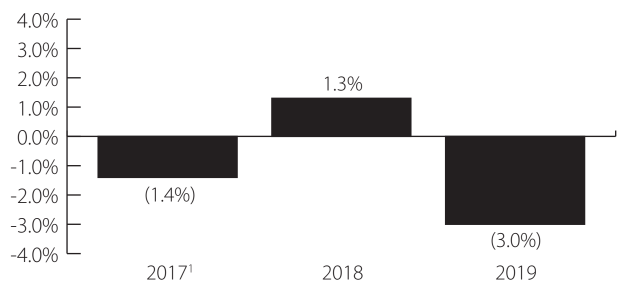
## Past Performance

The past performance information shown in this section is calculated using the net asset value per unit and assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. The past performance information does not take into account sales, redemptions, distribution or other optional charges or income taxes payable by the unitholder that would have reduced returns or performance. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

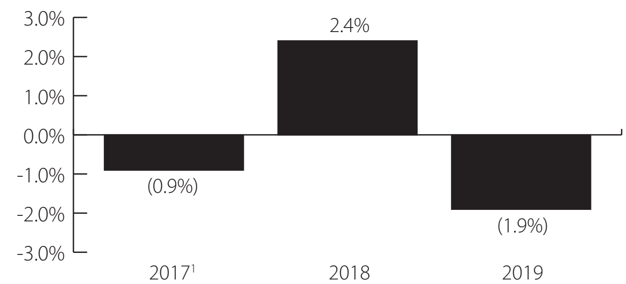
### Year-By-Year Returns

The following bar charts show the performance of each series of the Fund for each of the financial years shown and illustrates how the investment fund's performance has changed from year to year. The charts show in percentage terms how an investment made on the first day of each financial year would have increased or decreased by the last day of each financial year.

#### Series A Units




#### Series F Units




*1. Return for 2017 represents a partial year starting April 28, 2017 to September 30, 2017.*

### Annual Compound Returns

The table below shows the historical compound returns of the applicable series of units and the S&P 500 Total Return Index (the Index). The S&P 500 is widely regarded as the best single guage of large-cap U.S. equities. Performance will vary by series largely due to the extent that fees and expenses may differ between series.

| Series of Units | Inception Date | Since Inception | One Year | Three Year | Five Year | Ten Year |
|---|---|---|---|---|---|---|
| Series A | April 28, 2017 | (1.3%) | (3.0%) | - | - | - |
| Index | | 10.4% | 6.7% | - | - | - |
| Series F | April 28, 2017 | (0.2%) | (1.9%) | - | - | - |
| Index | | 10.4% | 6.7% | - | - | - |

Comparison to the Index: Since the Fund does not necessarily invest in the same securities as the Index or in the same proportion, the performance of the Fund is not expected to equal that of its benchmark. Please refer to Management Discussion of Fund Performance - Results of Operations for additional discussion of the Fund's performance compared to the Index.

## Management Fees

The Manager is responsible for the day-to-day management and administration of the Fund. The Manager monitors and evaluates the performance of the Fund, pays for the investment management services of the portfolio adviser and arranges for the administrative services required to be provided to the Fund. As compensation for its service, the Manager is entitled to receive a fee, payable monthly, calculated based on the daily net asset value of the Fund.

| | | Expenses Paid Out of the Management Fee (%) | | |
|---|---|---|---|---|
| Series of Units | Management Fee (%) | Dealer compensation | General administration, investment advice and profit | Absorbed expenses |
| Series A | 2.00% | 31% | - | 69% |
| Series F | 1.00% | - | - | 100% |

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance since inception. The information is provided as at September 30 of the year shown.

Series A Units - Net Assets per unit[1(a)]

| For the periods ended | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net assets, beginning of the period | $9.98 | $9.86 | $10.00 †1(b) |
| Increase (decrease) from operations: | | | |
| Total revenue | 0.15 | 0.15 | 0.05 |
| Total expenses | (0.27) | (0.29) | (0.12) |
| Realized gains (losses) | (0.05) | - | - |
| Unrealized gains (losses) | (0.20) | 0.25 | 0.02 |
| Total increase (decrease) from operations[2] | (0.37) | 0.11 | (0.05) |
| Distributions to unitholders: | | | |
| From income | (0.30) | - | - |
| From dividends | (0.05) | - | - |
| From capital gains | - | - | - |
| Return of capital | - | - | - |
| Total annual distributions[3] | (0.35) | - | - |
| Net assets, end of period[4] | $9.31 | $9.98 | $9.86 |

Series A Units - Ratios/Supplemental Data

| For the periods ended | 2019 | 2018 | 2017 |
|---|---|---|---|
| Total net asset value | $902,234 | $1,103,679 | $583,373 |
| Number of units outstanding | 96,942 | 110,538 | 59,160 |
| Management expense ratio[5] | 2.83% | 2.83% | 2.84% * |
| Management expense ratio before waivers or absorptions[5] | 9.26% | 9.77% | 18.74% * |
| Trading expense ratio[6] | 0.03% | 0.02% | 0.08% * |
| Portfolio turnover rate[7] | 27.49% | 4.37% | 5.16% |
| Net asset value per unit | $9.31 | $9.98 | $9.86 |

Series F Units - Net Assets per unit[1(a)]

| For the periods ended | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net assets, beginning of the period | $10.14 | $9.91 | $10.00 †1(b) |
| Increase (decrease) from operations: | | | |
| Total revenue | 0.16 | 0.15 | 0.05 |
| Total expenses | (0.16) | (0.18) | (0.08) |
| Realized gains (losses) | 0.02 | - | (0.01) |
| Unrealized gains (losses) | (0.15) | 0.27 | 0.01 |
| Total increase (decrease) from operations[2] | (0.13) | 0.24 | (0.03) |
| Distributions to unitholders: | | | |
| From income | (0.36) | - | - |
| From dividends | (0.06) | - | - |
| From capital gains | - | - | - |
| Return of capital | - | - | - |
| Total annual distributions[3] | (0.42) | - | - |
| Net assets, end of period[4] | $9.49 | $10.14 | $9.91 |

Series F Units - Ratios/Supplemental Data

| For the periods ended | 2019 | 2018 | 2017 |
|---|---|---|---|
| Total net asset value | $724,420 | $376,639 | $373,406 |
| Number of units outstanding | 76,327 | 37,126 | 37,693 |
| Management expense ratio[5] | 1.70% | 1.70% | 1.70% * |
| Management expense ratio before waivers or absorptions[5] | 8.13% | 8.64% | 17.60% * |
| Trading expense ratio[6] | 0.03% | 0.02% | 0.08% * |
| Portfolio turnover rate[7] | 27.49% | 4.37% | 5.16% |
| Net asset value per unit | $9.49 | $10.14 | $9.91 |

*† Initial offering price*

** Annualized*

## Explanatory Notes

1. a) The information is derived from the Fund's audited annual financial statements prepared in accordance with International Financial Reporting Standards. The net assets per security presented in the financial statements may differ from the net asset value calculated for fund pricing purposes.

   b) The following series of the Fund commenced operations on the following dates, which represents the date upon which securities of a series were first purchased by investors.

| | |
|---|---|
| Series A Units | April 28, 2017 |
| Series F Units | April 28, 2017 |

2. Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted daily average number of units outstanding over the financial period.

3. Distributions are paid out in cash/reinvested in additional units of the Fund, or both.

4. This is not a reconciliation of the beginning and ending net assets per unit.

5. The management expense ratio is based on total expenses (excluding foreign withholding taxes, commissions and other portfolio transaction costs but including management fee distributions paid to certain unitholders in the form of additional units) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The Manager may absorb certain expenses otherwise payable by the Fund. The amount of expenses absorbed is determined annually at the discretion of the Manager.

6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of the daily average net asset value of the Fund during the period.

7. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to a fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

   Portfolio turnover rate is calculated based on the lesser of the cumulative cost of purchases or cumulative proceeds of sales divided by the average market value of the portfolio, excluding short-term investments.

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